

Before the
United States Patent and Trademark Office
Alexandria, VA

Re: Request for Comments on the
Discretion to Institute Trials Before
the Patent Trial and Appeal Board

Docket No. PTO-C-2020-0055

COMMENTS OF CISCO SYSTEMS, GENERAL MOTORS, AND VERIZON

On October 20, 2020, the United States Patent and Trademark Office requested comments on proposed rulemaking regarding “considerations for instituting” inter partes review (IPR). 85 Fed. Reg. 66502 (Oct. 20, 2020). In particular, the Office asked for views on, *inter alia*,

- whether “in deciding whether to institute a petition on a patent that is or has been subject to other proceedings in a district court of the ITC,” the Office should “(a) altogether disregard such other proceedings, or (b) altogether decline to institute if the patent that is or has been subject to such other proceedings, unless the district court or the ITC has indicated that it will stay the action,” 85 Fed. Reg. 66506; and
- whether the Office should “promulgate a rule with a case-specific analysis, such as generally outlined in [*Apple Inc. v. Fintiv, Inc.*, IPR2020-00019, 2020 WL 2126495 (PTAB Mar. 20, 2020) (precedential)] and its progeny, for deciding whether to institute a petition on a patent that is or has been subject to other proceedings in a U.S. district court or the ITC,” 85 Fed. Reg. 66506.

Cisco Systems, General Motors, and Verizon submit the following comments.

Summary

The Office should “altogether disregard” parallel district court and ITC proceedings (other than ensuring compliance with 315(b)’s one-year filing deadline, *see infra* § I.B) when deciding whether to institute IPR. Indeed, the America Invents Act (AIA), 35 U.S.C. § 1, *et seq.*, prohibits the Office from considering such proceedings when making that decision. And for good reason: A central purpose of

IPR is to afford district court defendants an administrative alternative to litigation. Closing the door to IPR to those defendants, precisely because of their involvement in a parallel district court proceeding, would thwart that essential purpose. For all the same reasons, the Office should not—indeed, under the AIA, may not—“altogether decline institution … unless the district court … has indicated that it will stay the action.”

At bottom, the result of taking the timing of parallel district court proceedings into account will be to unfairly and arbitrarily restrict access to IPRs. But the AIA, and its creation of IPR, represented careful craftsmanship by Congress in fulfillment of the constitutional mission of providing a patent system to encourage progress in science and the useful arts. By making it so easy to bypass IPR, the Office’s new practices are effectively diverting money away from innovation and toward settlements and litigation expenses. The Office should change course to return the patent system to its constitutional purpose as implemented by Congress.

If the PTO nevertheless decides to take the timing of a parallel district court or ITC proceeding into account when determining whether to institute IPR, the AIA requires that it enact a rule to that effect, following the appropriate procedure for allowing public input—not merely rely on prior decisions (precedential or not) of the Patent Trial and Appeal Board (PTAB).

I. The PTO Should Disregard The Timing Of District Court And ITC Proceedings When Deciding Whether To Institute IPR.

A. Denying institution based on the timing of district court proceedings would contravene Congress’s considered judgment that IPR should be available to district court defendants.

Numerous provisions of the AIA make clear that Congress did not mean for the existence of a parallel district court action to foreclose the availability of IPR. To the contrary, the AIA demonstrates that Congress specifically intended that IPR be available to defendants in such actions.

In Chapter 32 of Title 35, Congress clearly set forth the factors the Office must and may consider when deciding whether to grant institution. *E.g.*, 35 U.S.C. § 314(a) (the Director *must* consider whether “there is a reasonable likelihood that

the petitioner would prevail with respect to at least 1 of the claims challenged in the petition”); *id.* § 325(d) (the Director “may” consider whether “the same or substantially the same prior art or arguments previously were presented to the Office”). Congress chose not to include the progress of a co-pending district court infringement action in that list. Instead, in § 315(b), Congress set a bright-line rule that gives a defendant in an already-pending infringement action a one-year period in which to file an IPR petition. Only if the defendant waits longer is the agency supposed to deny institution. *Cf.* 35 U.S.C. § 313 (limiting non-institution arguments in the patent owner’s preliminary response to “failure of the petition to meet any requirement of this chapter” (emphasis added)). Section 315(b) shows, then, that while Congress wanted to “minimize burdensome overlap between inter partes review and patent-infringement litigation” by imposing a one-year filing deadline, *Thryv, Inc. v. Click-To-Call Technologies, LP*, 140 S. Ct. 1367, 1375 (2020), it did not intend to entirely eliminate the overlap.

Other provisions confirm that, if Congress wanted to permit the PTAB to deny institution based on the progress of a district court proceeding, it would have said so. After all, Congress knows how to tell the agency to take account of related actions. It authorized the Director to alter, and even “terminat[e],” an IPR if a related matter is also pending before the Patent Office, for instance. 35 U.S.C. § 315(d). Similarly, it chose to bar institution where a petitioner had previously challenged the patent’s validity in a declaratory action, *id.* § 315(a)(1), and to automatically stay declaratory actions if patent challengers file them after petitioning for IPR, *id.* § 315(a)(2).

But Congress did not similarly permit the Patent Office to refuse an IPR just because the petitioner is defending a “matter involving the patent” in a district court action. *Id.* § 315(d). Instead, it simply chose to estop the petitioner from raising in the district court patent validity attacks that were raised, or could have been raised, in an instituted and finally decided IPR. *Id.* § 315(e)(2). In short, the statute shows that Congress was aware of potential overlap between proceedings—and specifically chose not to preclude institution on the basis of a parallel district court infringement action.

That judgment makes sense. Congress created IPR specifically because it thought that district court litigation was too expensive and, at times, inexpert to provide an effective check on bad patents (and that existing administrative

remedies were insufficient to pick up the slack). Denying institution because of a parallel district court action would thus subvert a key purpose behind IPR.

Congress enacted the AIA in response to “a growing sense that questionable patents are too easily obtained and are too difficult to challenge.” H.R. Rep. No. 112-98, at 39-40 (2011) (“House Report”). Though Congress had “long permitted parties to challenge the validity of patent claims in federal court,” as well as through administrative processes like inter partes reexamination, those mechanisms had proved “unsatisf[ying].” *SAS Inst. Inc. v. Iancu*, 138 S. Ct. 1348, 1353 (2018). Too many “bad patents” still “slip[ped] through,” and the costs of challenging them remained too high. *Id.*

To better “promote the Progress of Sciences and useful Arts,” U.S. Const., art. I, § 8, cl. 8, Congress created IPR—a then-new and expert administrative procedure that allows parties to challenge patent validity in an adversarial proceeding. 35 U.S.C. § 311. Congress explained that the object of the AIA’s new procedures was to “establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs.” House Report at 40.

Congress had several reasons to offer this “alternative” to district court litigation. House Report at 48. For one, Congress knew that IPR is “more efficient” and cost-effective than district court litigation for improving patent quality. *See id.* at 40, 48. For another, IPR allows parties to avail themselves of “the expertise of the Patent Office on questions of patentability.” 157 Cong. Rec. S1352 (2011) (Sen. Udall). That is particularly valuable when the party seeking IPR is also a defendant in a patent infringement action. Indeed, IPR was “designed in large measure to simplify proceedings before the courts and to give the courts the benefit of the expert agency’s full and focused consideration of the effect of prior art on patents being asserted in litigation.” *NFC Tech. LLC v. HTC Am., Inc.*, 2015 WL 1069111, at *4 (E.D. Tex. Mar. 11, 2015) (Bryson, J., sitting by designation).

Denying institution because of a parallel district court proceeding would thus undermine exactly the important policy goals that Congress meant to further when it enacted the AIA and made IPR available to district court defendants.

B. Denying IPR based on the timing of a parallel district court action would contravene Congress's considered judgment in enacting a twelve-month filing window.

When it enacted the AIA, Congress gave IPR petitioners twelve months from service of the complaint to file for IPR. That filing period was not arrived at accidentally: Instead, it reflects Congress' deliberate balancing of competing considerations. If the Office were to rely on the timing of a parallel district court action to deny IPR petitions filed within that twelve-month window, it would effectively cut short the AIA's filing period, and upset the careful policy balance that Congress struck.

Congress knew that companies "are often sued by [parties] asserting multiple patents with large numbers of vague claims," and understood that it can take months to determine "which claims will be relevant and how those claims are alleged to read on the defendant's products." 157 Cong. Rec. S5429 (2011) (Sen. Kyl). With that in mind, Congress created a one-year safe harbor in § 315(b) to "afford defendants a reasonable opportunity to identify and understand the patent claims that are relevant to the litigation." *Id.* The one-year period was so "important" that Congress specifically rejected a shorter, six-month filing window. *Id.*

Denying review for petitions filed within that twelve-month window, based only on the timing of a parallel district court action, flies in the face of Congress's judgment: It re-writes the terms of the safe-harbor and effectively eviscerates it and the vital purpose it serves. *Cf. Petrella v. Metro-Goldwyn-Mayer, Inc.*, 572 U.S. 663, 667 (2014) (extra-statutory factors may not be used to reject claim brought within statute's window for filing). For one, considering the timing of a district court action would flout the statute's express timing benchmarks. In setting the one-year deadline for infringement defendants to seek IPR, Congress chose to work forward from the service of the complaint. 35 U.S.C. § 315(b). The Office, by contrast, in considering the timing of a district court action has worked backward from a purely tentative trial date. *See, e.g., Fintiv*, 2020 WL 2126495, at *4 (explaining that the Office "generally" denies institution where "the court's trial date is earlier than the projected statutory deadline" for IPR); *Cisco Sys., Inc. v. Ramot at Tel Aviv Univ. Ltd.*, IPR2020-00123, 2020 WL 2511246, at *3 (PTAB May

15, 2020) (denying institution because the tentative district court trial date was six months before the projected statutory deadline for IPR).

That approach not only contravenes the statutory text but also transforms a safe harbor with known and stable boundaries into an unpredictable, de facto time bar triggered by forces “outside [the petitioner’s] control.” *Cisco*, 2020 WL 2511246, at *10 (Cumbley, J., dissenting). Trial dates, after all, are seldom fixed; “[c]ourts can, and often do, extend or accelerate deadlines and modify case schedules for myriad reasons.” *Precision Planting, LLC v. Deere & Co.*, IPR2019-01044, 2019 WL 6481776, at *6 (PTAB Dec. 2, 2019); *see also In re Apple*, 2020 WL 6554063, at *8 n.5 (Fed. Cir. 2020) (“[S]cheduled trial dates are often subject to change.”). In fact, a recent study found that trial dates in parallel district court actions are pushed back by an average of 3 months after the PTAB denies discretionary review. Scott McKeown, *District Court Trial Dates Tend to Slip After PTAB Discretionary Denials*, Patents Post-Grant (July 24, 2020), <https://www.patentspostgrant.com/district-court-trial-dates-tend-to-slip-after-ptab-discretionary-denials>. Moreover, a trial is rarely the end of a district court’s consideration; post-trial motions and appeals drag on long after the Board would have resolved validity questions that could wipe out the case for infringement.

Even more troublingly, denying institution based on the timing of a district court action invites precisely the negative policy outcomes that Congress sought to avoid when it gave district court defendants a full twelve months to file for IPR.

To start, it exacerbates the already serious problem of forum shopping. In some judicial districts—particularly the “rocket dockets” popular with patent assertion entities (“PAEs”)—trial dates are set for such an early date that, once a complaint is filed, it may already be too late to avoid non-institution under the Board’s approach. It is no secret that certain venues are, as a practical matter, in a race to beat the Board due to their desire to keep dockets moving quickly. *See, e.g.*, Britain Eakin, *West Texas Judge Says He Can Move Faster Than PTAB*, Law360 (Nov. 27, 2019), <https://tinyurl.com/y22fd4ue>. These venues “quickly push cases from filing to trial,” set early dates for Markman hearings and discovery, and “typically deny motions to stay pending PTAB proceedings.” *See Analysis of Patent Litigation in the Western District of Texas*, Docket Navigator 4 (2020), <https://tinyurl.com/y2o8m996>. Thus, by filing in these “rocket dockets,” plaintiffs could preempt IPRs entirely.

Unsurprisingly, that is exactly what PAEs are doing. So far in 2020, 32.5% of cases involving PAEs were filed in the Western District of Texas, *see Litigation Analytics*, Unified Patents, <https://tinyurl.com/y5t9ytep> (last visited Nov. 5, 2020) (searchable by district court)—which by default schedules trials for less than 18 months after the initial case management conference, *see Order Governing Proceedings—Patent Case*, U.S. District Court for the Western District of Texas (Feb. 26, 2020), <https://tinyurl.com/ybcamrwe>. An additional 14% have been filed in the Eastern District of Texas, which often puts cases on a similar schedule. *See Litigation Analytics*, Unified Patents, <https://tinyurl.com/y5t9ytep>. The concentration of cases in these districts will only increase if plaintiffs can use them to sidestep IPR entirely. That kind of tactical maneuvering will bolster “the perception that justice in patent cases can be ‘gamed’”—an outcome that “does not serve the interest of justice, or the patent system as a whole.” S. Rep. No. 110-259, at 53 (Sen. Specter).

Just as important, that incentive for gamesmanship does not stop at the choice of forum. Even for plaintiffs unable to file in a “rocket docket” district, there will be a powerful incentive to push for the most aggressive district court schedules possible. If the institution decision is tied to district court initial benchmarks, plaintiffs will have every reason to seek an accelerated schedule at the outset of the action—only to then have the freedom to be able to seek extensions after IPR petitions are denied.

What is more, denying institution based on the timing of a district court action will drive defendants to file petitions immediately upon being sued—and well before the plaintiffs have identified, much less narrowed, their infringement contentions and before defendants can properly vet the asserted claims. *See* 157 Cong. Rec. S5429 (2011) (Sen. Kyl) (explaining that it can take months for a district court defendant to determine “which claims will be relevant and how those claims are alleged to read on the defendant’s products”). As APJ Cumbley of the PTAB has explained, that kind of regime will “set an expectation that a Petitioner is expected to hazard a guess as to the claims that will be asserted by the Patent Owner and file a petition as to those claims in the hopes of avoiding a discretionary denial by the Board.” *Cisco*, 2020 WL 2511246, at *10 (Cumbley, J., dissenting). Indeed, defendants are already being told to take this tack. *See* Jasper L. Tran et al., *Discretionary Denials of IPR Institution*, 19 Chi.-Kent J. Intell. Prop. 253, 264

(2020) (advising “an alleged infringer to consider early IPR petitions to try to preempt” non-institution based on timing of a district court action). One defendant, who sought IPR while facing serial lawsuits asserting 21 patents and more than 430 claims, put the stakes in stark terms: “if Intel had challenged the patentability of all 430+ claims soon after each case was filed, the number of necessary IPR petitions—and the burden on the Board and Intel—would have been staggering.” *Intel Corp. v. VLSI Tech. LLC*, IPR2020-00142, Paper 13 at 4 (PTAB Apr. 6, 2020).

The costs of that kind of system are obvious. The Board will have to expend its limited resources resolving bloated petitions filed prematurely in order to avoid the de facto institution bar. The patent system as a whole will be plagued by more “bad” patents remaining enforceable—exactly the opposite of what Congress set out to achieve in the AIA, *see Thryv*, 140 S. Ct. at 1374. And parties will be saddled with the increased expense of trying to put together a persuasive IPR petition with a sweeping scope on a rushed timeline—as well as the additional litigation costs that come every time a meritorious IPR is denied for timing reasons. Worse still, those costs will not be borne equally. Not all district court defendants will have the wherewithal to put together quality IPR petitions of the required scope on a short deadline. IPR will thus be least available to those who need it most: the small, less-established players who count on the cheaper administrative avenue of IPR to fend off meritless (yet expensive) infringement actions asserting invalid patents.

At bottom, the net effect of this functional shortening the twelve-month filing window is clear: It will unfairly restrict the availability of IPR. And while certain panels of the PTAB have suggested that cutting down on IPR in that way will improve the “efficiency … of the system,” *Cisco*, 2020 WL 2511246, at *5; *Fintiv*, 2020 WL 2126495, at *3, Congress has decided otherwise. It made the call that *increasing* access to IPR improves system efficiency. By channeling validity disputes into IPRs before the Patent Office, Congress sought “to simplify proceedings before the courts and to give the courts the benefit of the expert agency’s full and focused consideration of the effect of prior art on patents being asserted in litigation.” *NFC Tech.*, 2015 WL 1069111, at *4 (Bryson, J.). Denying IPR based on the timing of a parallel district court action undermines those goals. As prospects for IPRs dim, the value to PAEs of meritless litigation increases. Indeed, the data suggests that such entities may already be taking advantage of the restricted availability of IPR to bring even more meritless suits to extract

settlement value. *See Q2 2020 Patent Dispute Report*, Unified Patents (July 1, 2020), <https://tinyurl.com/y3qhlw94> (noting that patent “litigation [has] reached an all-time high” since 2016, with “66% of cases being asserted by [PAEs].”).

The AIA represented careful craftsmanship by Congress in fulfillment of the constitutional mission of providing a patent system to encourage progress in science and the useful arts. By making it so easy to bypass IPR, the USPTO’s new practices are effectively diverting money away from innovation and toward settlements and litigation expenses. The Office should change course to return the patent system to its constitutional purpose as implemented by Congress.

II. If The Office Nevertheless Decides To Consider The Timing Of District Court Proceedings In IPR Institution Decisions, It Must Promulgate A Rule To That Effect.

If, notwithstanding everything above, the Office ultimately decides to consider the timing of parallel district court proceedings in its institution decisions, the AIA requires that it promulgate a rule to that effect through notice-and-comment rulemaking—as the Office has undertaken to do now. The Office may not merely continue to rely on precedential PTAB decisions. *See, e.g., Cisco*, 2020 WL 2511246, at *3 (relying on *Fintiv*, 2020 WL 2126495, to use timing of district court proceeding to deny institution)

The text of the AIA specifies the grounds that the agency may and must consider in deciding whether to institute IPR. *Compare, e.g.,* 35 U.S.C. § 314(a) (the Director *must* consider whether “there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition”), *with id.* § 325(d) (the “may” consider whether “the same or substantially the same prior art or arguments previously were presented to the Office”).

The AIA also lays out a mechanism for adding considerations beyond those listed in the statute. If the agency wishes to create additional “standards for the showing of sufficient grounds to institute” IPR (or, indeed, any rules “governing inter partes review”), “[t]he Director shall prescribe regulations” setting them forth. 35 U.S.C. § 316(a)(2), (4) (emphasis added). By providing that the Director “shall”—a word that “generally imposes a nondiscretionary duty,” *SAS*, 138 S. Ct. at 1354—prescribe additional IPR institution standards through “regulation”—a term that

refers to “legislative rule[s]” issued “pursuant to the notice-and-comment requirements of [the] APA,” *U.S. Telecom Ass’n v. FCC*, 400 F.3d 29, 38, 40 (D.C. Cir. 2005)—Congress left no room for him to do so through any other means (such as through precedential Board decisions).

The AIA leaves no doubt that the decision to require notice-and-comment procedures for new institution standards was deliberate. In other circumstances, Congress delegated the Director authority “without specifying the means of enactment.” *Aqua Prods., Inc. v. Matal*, 872 F.3d 1290, 1330 (Fed. Cir. 2017) (separate opinion of Moore, Newman & O’Malley, J.J.). Section 27, for instance, provides that the “Director may establish procedures” for reviving an unintentionally abandoned patent application—without requiring him to do so via regulation. 35 U.S.C. § 27; *see also*, e.g., *id.* §§ 111(c), 119(b)(2). Here, by contrast, “Congress has delegated to the Director rulemaking authority and specified that it be by promulgated regulation.” *Aqua*, 872 F.3d at 1331; *id.* at 1332 n.7 (“[35 U.S.C.] § 2(b)(2) expressly requires the agency’s regulations ‘shall be made in accordance with section 553 of title 5’”—i.e., the notice-and-comment requirements of the Administrative Procedure Act); *see also U.S. Telecom*, 400 F.3d at 38, 40 (notice-and-comment procedures required “when a statute defines a duty in terms of agency regulations”).

Accordingly, if the Director wishes to deny institution based on the timing of a district court action—a consideration, which as detailed above, is not provided for in the AIA—he must promulgate a rule to that effect.

Conclusion

The Office should altogether disregard parallel district court and ITC proceedings when deciding whether to institute IPR. Denying institution because of the timing of such parallel actions cuts down on the number of IPRs—not in a way that prioritizes important cases or the most efficient use of Board resources—but rather in a manner that makes the availability of IPR turn on the vagaries of individual district judges’ practices and preferences. Moreover, there is no way to implement such a regime without significant drawbacks: Bright-line rules could be easily gamed by litigants; while flexible standards would create arbitrariness and unpredictability. But if the Office nevertheless wishes to consider such proceedings

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(in contravention of the AIA and the policy goals it seeks to advance), it must promulgate a rule to that effect and cannot simply rely on PTAB decisions.

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